# GROUP SENSE (INTERNATIONAL) LIMITED

# 權智(國際)有限公司*

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 601)**

# ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

## RESULTS

The board of directors (the "Board") of Group Sense (International) Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016, together with the comparative figures for the period from 1 April 2015 to 31 December 2015, as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | *Notes* | **Year ended 31 December 2016** ***HK$'000*** | Period from 1 April 2015 to 31 December 2015 *HK$'000* (Restated) |
|---|---|---|---|
| **REVENUE** | *4* | **363,676** | 139,537 |
| Cost of sales | | **(307,214)** | (104,215) |
| Gross profit | | **56,462** | 35,322 |
| Other income and gains | *4* | **19,749** | 11,532 |
| Gain on bargain purchase (restated) | *12* | **—** | 28,746 |
| Selling and distribution expenses | | **(21,972)** | (17,811) |
| Administrative expenses | | **(39,948)** | (41,401) |
| Research and development expenses | | **(20,098)** | (16,141) |
| Other operating expenses, net | | **(25,526)** | (180) |
| Finance costs | *5* | **(1,362)** | (934) |
| Share of profits and losses of | | | |
| Joint ventures | | **1,695** | 1,136 |
| Associate | | **(1)** | (4) |
| **(LOSS)/PROFIT BEFORE TAX** | *6* | **(31,001)** | 265 |
| Income tax expense | *7* | **(22)** | — |

* *For identification purpose only*

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(cont'd)*

| | Note | Year ended 31 December 2016 HK$'000 | Period from 1 April 2015 to 31 December 2015 HK$'000 (Restated) |
|---|---|---|---|
| **(LOSS)/PROFIT FOR THE YEAR/PERIOD** | | **(31,023)** | 265 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods: | | | |
| Exchange differences on translation of foreign operations | | **(27,025)** | (7,971) |
| **TOTAL COMPREHENSIVE LOSS FOR THE YEAR/PERIOD** | | **(58,048)** | (7,706) |
| (Loss)/profit for the year/period attributable to: | | | |
| Equity holders of the Company | | **(29,485)** | 268 |
| Non-controlling interests | | **(1,538)** | (3) |
| | | **(31,023)** | 265 |
| Total comprehensive loss for the year/period attributable to: | | | |
| Equity holders of the Company | | **(56,998)** | (8,014) |
| Non-controlling interests | | **(1,050)** | 308 |
| | | **(58,048)** | (7,706) |
| **(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY** | | | |
| Basic and diluted (HK cents) | *9* | **(1.03 cents)** | 0.01 cents |

Details of the dividends are disclosed in note 8 to this announcement.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | *Notes* | **2016** **_HK$'000_** | 2015 *HK$'000* (Restated) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **326,452** | 313,508 |
| Prepaid land lease payments | | **42,103** | 45,668 |
| Deferred development costs | | **—** | 756 |
| Investments in joint ventures | | **5,362** | 4,290 |
| Investment in an associate | | **17** | 18 |
| Available-for-sale investments | | **6,840** | 7,300 |
| Long term deposits | | **372** | 10,688 |
| Total non-current assets | | **381,146** | 382,228 |
| **CURRENT ASSETS** | | | |
| Inventories | | **83,826** | 58,590 |
| Trade receivables | *10* | **43,546** | 20,300 |
| Prepayments, deposits and other receivables | | **20,151** | 14,264 |
| Amount due from a joint venture | | **133** | 885 |
| Available-for-sale investments | | **22,245** | — |
| Tax recoverable | | **1,706** | 1,826 |
| Pledged deposits | | **—** | 488 |
| Cash and cash equivalents | | **137,757** | 375,161 |
| Total current assets | | **309,364** | 471,514 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | *11* | **48,417** | 54,431 |
| Other payables and accruals (restated) | | **70,090** | 132,814 |
| Interest-bearing bank borrowings | | **21,285** | 68,927 |
| Provision | | **933** | 945 |
| Due to a non-controlling shareholder of a subsidiary | | **216** | — |
| Tax payable | | **115** | 123 |
| Total current liabilities | | **141,056** | 257,240 |
| **NET CURRENT ASSETS** | | **168,308** | 214,274 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **549,454** | 596,502 |
| **NON-CURRENT LIABILITY** | | | |
| Amount due to a shareholder | | **121,000** | 110,000 |
| Net assets | | **428,454** | 486,502 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Issued capital | | **287,439** | 287,439 |
| Reserves | | **148,328** | 205,326 |
| | | **435,767** | 492,765 |
| **Non-controlling interests** | | **(7,313)** | (6,263) |
| Total equity | | **428,454** | 486,502 |

## NOTES

### 1. BASIS OF PREPARATION

The Group's financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinances. They have been prepared under the historical cost convention except for certain available-for-sale investments which have been measured at fair value. The Group's financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The Group changed its financial year end date from 31 March to 31 December in the last financial period to conform to that of its immediate holding company, Ming Xin Development Limited. The current year financial statements cover a period of twelve months from 1 January 2016 to 31 December 2016. Accordingly, the comparative amounts presented for the above consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes (which cover a period of nine months from 1 April 2015 to 31 December 2015) are not directly comparable with those of the current year.

### 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) | *Investment Entities: Applying the Consolidation Exception* |
| Amendments to HKFRS 11 | *Accounting for Acquisitions of Interests in Joint Operations* |
| HKFRS 14 | *Regulatory Deferral Accounts* |
| Amendments to HKAS 1 | *Disclosure Initiative* |
| Amendments to HKAS 16 and HKAS 38 | *Clarification of Acceptable Methods of Depreciation and Amortisation* |
| Amendments to HKAS 16 and HKAS 41 | *Agriculture: Bearer Plants* |
| Amendments to HKAS 27 (2011) | *Equity Method in Separate Financial Statements* |
| *Annual Improvements 2012-2014 Cycle* | Amendments to a number of HKFRSs |

Except for the amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011), HKFRS 14, amendments to HKAS 16 and HKAS 41, amendments to HKAS 27 (2011), and the *Annual Improvements 2012-2014 Cycle,* which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

(a) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

    (i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and other comprehensive income and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss and other comprehensive income. The amendments have had no significant impact on the Group's financial statements.

(b) Amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are applied prospectively. The amendments have had no impact on the Group as there has been no interest acquired in a joint operation during the year.

(c) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

## 3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

(a) the magnesium products segment manufactures and sells magnesium related products;

(b) the personal communication products segment designs, manufactures and sells a range of communications products;

(c) the strategic products segment designs, manufactures and sells ODM products and electronic dictionary products and provides electronic manufacturing services; and

(d) the corporate and others segment comprises corporate income, expenses, asset and liability items related to the Group's investment activities.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that interest income, finance costs, share of profits and losses of joint ventures and an associate are excluded from this measurement.

Segment assets exclude investments in joint ventures and associate, available-for-sale investments, amounts due from associate and joint ventures, pledged deposits, cash and cash equivalents, tax recoverable and other unallocated head office assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings, an amount due to a non-controlling shareholder of a subsidiary, an amount due to a shareholder and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the prevailing market prices.

| | Magnesium products *HK$'000* | Personal communication products *HK$'000* | Strategic products *HK$'000* | Corporate and others *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| **Year ended 31 December 2016** | | | | | |
| **Segment revenue:** | | | | | |
| Sales to external customers | 132,021 | 58,692 | 172,963 | — | 363,676 |
| Segment results | (14,222) | (12,006) | (626) | (4,642) | (31,496) |
| *Reconciliation:* | | | | | |
| Interest income | | | | | 623 |
| Impairment of an available-for-sale investment | | | | | (460) |
| Finance costs | | | | | (1,362) |
| Share of profits of joint ventures | | | | | 1,695 |
| Share of losses of an associate | | | | | (1) |
| Loss before tax | | | | | (31,001) |
| **Segment assets** | 321,786 | 46,825 | 146,589 | 1,400 | 516,600 |
| *Reconciliation:* | | | | | |
| Unallocated assets | | | | | 173,910 |
| Total assets | | | | | 690,510 |
| **Segment liabilities** | 47,862 | 18,568 | 51,806 | 1,204 | 119,440 |
| *Reconciliation:* | | | | | |
| Unallocated liabilities | | | | | 142,616 |
| Total liabilities | | | | | 262,056 |
| **Other segment information:** | | | | | |
| Depreciation and amortisation | 20,153 | 1,954 | 6,071 | 1,075 | 29,253 |
| Impairment of deferred development cost | — | 358 | 1 | — | 359 |
| Capital expenditure | 61,525 | 122 | 786 | 22 | 62,455* |
| Gain on disposal of items of property, plant and equipment | — | (23) | (66) | — | (89) |
| Provision of slow moving inventories | — | 5,614 | 1,444 | — | 7,058 |
| Product warranty provision | — | 271 | 78 | — | 349 |
| Reversal of unutilised product warranty provision | — | (72) | — | — | (72) |
| Write-back of long-aged accruals | (3,059) | — | — | — | (3,059) |
| Reversal of impairment of other receivables | — | — | (5,495) | — | (5,495) |
| Reversal of impairment of trade receivables | (279) | — | — | — | (279) |
| Impairment of trade receivables | 192 | — | 592 | — | 784 |

* Capital expenditure consists of additions to property, plant and equipment.

| | Magnesium products HK$'000 (Restated) | Personal communication products HK$'000 | Strategic products HK$'000 | Corporate and others HK$'000 | Total HK$'000 (Restated) |
|---|---|---|---|---|---|
| **Period from 1 April 2015 to 31 December 2015** | | | | | |
| **Segment revenue:** | | | | | |
| Sales to external customers | — | 33,345 | 106,192 | — | 139,537 |
| **Segment results** | (1,565) | (8,996) | (12,282) | (5,900) | (28,743) |
| *Reconciliation:* | | | | | |
| Interest income | | | | | 65 |
| Gain on disposal of subsidiaries | | | | | 179 |
| Gain on bargain purchase | | | | | 28,746 |
| Finance costs | | | | | (934) |
| Impairment of an investment in a joint venture | | | | | (180) |
| Share of profits and losses of joint ventures | | | | | 1,136 |
| Share of losses of an associate | | | | | (4) |
| Profit before tax | | | | | 265 |
| **Segment assets** | 258,397 | 37,482 | 164,614 | 3,281 | 463,774 |
| *Reconciliation:* | | | | | |
| Unallocated assets | | | | | 389,968 |
| Total assets | | | | | 853,742 |
| **Segment liabilities** | 128,007 | 13,598 | 45,123 | 1,462 | 188,190 |
| *Reconciliation:* | | | | | |
| Unallocated liabilities | | | | | 179,050 |
| Total liabilities | | | | | 367,240 |
| **Other segment information:** | | | | | |
| Depreciation and amortisation | 793 | 1,560 | 5,240 | 945 | 8,538 |
| Impairment of deferred development cost | — | — | 237 | — | 237 |
| Capital expenditure | 232,173 | 450 | 895 | — | 233,518* |
| Gain on disposal of items of property, plant and equipment | — | (1) | (4) | — | (5) |
| Provision of slow moving inventories | — | 9 | 1,977 | — | 1,986 |
| Product warranty provision | — | 152 | 49 | — | 201 |
| Reversal of unutilised product warranty provision | — | (500) | — | — | (500) |
| Reversal of impairment of trade receivables | — | — | (229) | — | (229) |
| Impairment of trade receivables | — | — | 206 | — | 206 |

* Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments and deferred development costs including assets from the acquisition of a subsidiary.

**Geographical information**

(a) Revenue from external customers

| | **Year ended 31 December 2016** *HK$'000* | Period from 1 April 2015 to 31 December 2015 *HK$'000* |
|---|---|---|
| Japan | **129,867** | 69,725 |
| Hong Kong | **49,715** | 30,890 |
| Middle East | **2,855** | 2,218 |
| Taiwan | **6,105** | 880 |
| Europe | **17,371** | 11,945 |
| Mainland China (other than Hong Kong) | **152,339** | 21,393 |
| North America | **57** | 201 |
| Korea | **301** | — |
| Others | **5,066** | 2,285 |
| | **363,676** | 139,537 |

The revenue information above is based on the locations of the customers.

(b) Non-current assets

| | **2016** *HK$'000* | 2015 *HK$'000* |
|---|---|---|
| Mainland China (other than Hong Kong) | **365,988** | 365,503 |
| Hong Kong | **8,289** | 9,385 |
| Others | **29** | 40 |
| | **374,306** | 374,928 |

The non-current asset information above is based on the locations of the assets and excludes available-for-sale investments.

**Information about major customers**

No sales to a single customer contributed 10% or more of the Group's revenue during the current year. Revenue from a major customer which amounted to 10% or more of the Group's revenue in the prior period, is set out below:

| | **Period from 1 April 2015 to 31 December 2015 Strategic products** *HK$'000* |
|---|---|
| Customer A | 14,981 |

## 4. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year/period.

An analysis of revenue and other income and gains, net is as follows:

| | **Year ended 31 December 2016** *HK$'000* | Period from 1 April 2015 to 31 December 2015 *HK$'000* (Restated) |
|---|---|---|
| **Revenue** | | |
| Sale of goods | **363,676** | 139,537 |
| **Other income** | | |
| Bank interest income | **623** | 65 |
| Service fee income | **3,729** | 3,260 |
| Sales of scrap materials | **3,514** | 2,036 |
| Others | **8,347** | 5,987 |
| | **16,213** | 11,348 |
| **Other gains, net** | | |
| Gain on disposal of items of property, plant and equipment | **89** | 5 |
| Gain on disposals of subsidiaries | **—** | 179 |
| Foreign exchange difference, net | **3,447** | — |
| | **3,536** | 184 |
| Total other income and gains | **19,749** | 11,532 |

## 5. FINANCE COSTS

| | Year ended 31 December 2016 *HK$'000* | Period from 1 April 2015 to 31 December 2015 *HK$'000* |
|---|---|---|
| Interest on bank borrowings wholly repayable within five years | **1,362** | 934 |

## 6. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax is arrived at after charging/(crediting):

| | Year ended 31 December 2016 *HK$'000* | Period from 1 April 2015 to 31 December 2015 *HK$'000* (Restated) |
|---|---|---|
| Cost of inventories sold# | **295,189** | 102,229 |
| Depreciation | **27,738** | 7,717 |
| Recognition of prepaid lease payments | **1,118** | 393 |
| Research and development expenses: | | |
| Deferred development costs amortised | **397** | 428 |
| Impairment of deferred development costs | **359** | 237 |
| Current year expenditure | **19,342** | 15,476 |
| | **20,098** | 16,141 |
| Minimum lease payments under operating leases in respect of land and buildings | **4,115** | 4,345 |
| Auditors' remuneration | **1,700** | 1,530 |
| Employee benefit expense (including directors' remuneration) | | |
| Wages and salaries and benefits in kind | **93,205** | 70,180 |
| Pension scheme contributions | **2,512** | 4,411 |
| | **95,717** | 74,591 |

| | Note | Year ended 31 December 2016 HK$'000 | Period from 1 April 2015 to 31 December 2015 HK$'000 (Restated) |
|---|---|---|---|
| Operating expense due to the idle capacity* | | **25,066** | — |
| Gain on disposal of items of items of property, plant and equipment | | **(89)** | (5) |
| Foreign exchange differences, net | | **(3,447)** | (1,116) |
| Provision of slow moving inventories# | | **7,058** | 1,986 |
| Product warranty provision | | **349** | 201 |
| Reversal of unutilised warranty provision | | **(72)** | (500) |
| Write-back of long-aged accurals | | **(3,059)** | — |
| Impairment of an investment in a joint venture* | | **—** | 180 |
| Impairment of an available-for-sale investment* | | **460** | — |
| Impairment of trade receivables** | | **784** | 206 |
| Reversal of impairment of trade receivables** | | **(279)** | (229) |
| Reversal of impairment of other receivables*** | | **(5,495)** | — |
| Gain on bargain purchase | *12* | **—** | (28,746) |

# Included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income

* Included in "Other operating expenses, net" in the consolidated statement of profit or loss and other comprehensive income

** Included in "Selling and distribution expenses" in the consolidated statement of profit or loss and other comprehensive income

*** Included in "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income

## 7. INCOME TAX

No provision for Hong Kong profits tax has been made as the Company and its subsidiaries did not generate any assessable profits arising in Hong Kong during the year (Period from 1 April 2015 to 31 December 2015: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

| | Year ended 31 December 2016 HK$'000 | Period from 1 April 2015 to 31 December 2015 HK$'000 |
|---|---|---|
| Current – Elsewhere | | |
| Charge for the year/period | **22** | — |

## 8. DIVIDEND

The board of directors does not recommend the payment of any dividend for the year ended 31 December 2016 and for the period from 1 April 2015 to 31 December 2015.

## 9. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the Company of HK$29,485,000 (Period from 1 April 2015 to 31 December 2015: profit of HK$268,000 (restated)) and the weighted average number of ordinary shares of 2,874,390,058 (2015: 2,038,203,859) during the year.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2016 and for the period from 1 April 2015 to 31 December 2015.

## 10. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables related to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are interest-free.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the payment due dates and net of provisions, is as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 60 days | **41,659** | 19,101 |
| 61 to 90 days | **858** | 127 |
| Over 90 days | **1,029** | 1,072 |
| | **43,546** | 20,300 |

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 60 days | **41,357** | 18,835 |
| 61 to 90 days | **1,155** | 284 |
| Over 90 days | **1,034** | 1,181 |
| | **43,546** | 20,300 |

## 11. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the payment due dates, is as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 60 days | **38,623** | 51,350 |
| 61 to 90 days | **2,108** | 45 |
| Over 90 days | **7,686** | 3,036 |
| | **48,417** | 54,431 |

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice dates, is as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 60 days | **35,345** | 49,585 |
| 61 to 90 days | **2,986** | 1,775 |
| Over 90 days | **10,086** | 3,071 |
| | **48,417** | 54,431 |

The trade payables are non-interest-bearing and are normally settled on 60-day terms.

## 12. RESTATEMENT DERIVED FROM BUSINESS COMBINATION

On 15 December 2015, the Group acquired the entire interest in Xinjiang Tengxiang Magnesium Products Company Limited ("Xinjiang Tengxiang") from independent third parties. Xinjiang Tengxiang is engaged in the production and trading of magnesium ingots and semi coke. The acquisition was made as part of the Group's strategy to diversify the Group's business and enhance long-term growth potential of the Group. The purchase consideration for the acquisition was in the form of cash and the unpaid amount was recorded as other payable as at 31 December 2015.

The gain on bargain purchase recognised in the 2015 financial statements were based on a provisional assessment on the purchase consideration. Pursuant to the sale and purchase agreement entered into by the Group and the sellers, the purchase consideration shall be adjusted by the operating gain or loss of Xinjiang Tengxiang for the period from 1 May 2015 to the completion date. The negotiation of the adjustments to the purchase consideration with the sellers had not been completed by the date the 2015 financial statements were approved for issue by the directors.

During the year, the Group has completed the negotiation of adjustments to the purchase consideration with the sellers. In accordance with the supplemental agreement agreed by the Group and the sellers, the purchase consideration for the acquisition was finalised at RMB54,482,000 (equivalent to approximately HK$66,027,000), resulting in a decrease of RMB17,794,000 over the provisional value and increase in gain on bargain purchase of the same amount. The 2015 comparative information was restated to reflect the adjustment to the provisional amounts. As a result, there was a reduction on the consideration payable of HK$21,184,000 as at 31 December 2015, an increase in the gain on bargain purchase of HK$21,564,000 and decrease in the foreign exchange gain of HK$380,000 arising from the retranslation of consideration payable for the period from 1 April 2015 to 31 December 2015.

## FINAL DIVIDEND

The Board does not recommend any payment of final dividend to the shareholders of the Company for the year ended 31 December 2016.

## ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the shareholders of the Company (the "Shareholders") will be held on 26 May 2017 ("AGM") and a notice convening the AGM of the Company will be published and despatched in the manner as required by the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules") in due course.

## CLOSURE OF REGISTER OF MEMBERS

The Board hereby announces that the register of members of the Company will be closed from Wednesday, 24 May 2017 to Friday, 26 May 2017 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the attendance of the forthcoming annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 23 May 2017.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

Thanks to successful market expansion and improved operational efficiency, the revenue of existing electronic business of the Group for the year ended 31 December 2016 regained growth with reduction in operating loss. During the year, the Group continued to pursue magnesium business, by constructively carrying out integration and technical enhancements, optimizing production equipment, developing new markets and capitalizing on the opportunities stemming from the rapid growth of magnesium industry. The Group's management established a good expectation on the future profit of the Group.

### The Magnesium Business

At the end of 2015, the Group acquired Xinjiang Tengxiang Magnesium Products Company Limited ("Xinjiang Tengxiang"), a magnesium product manufacturer in Xinjiang, which achieved satisfactory sales since the resumption of operation in the first quarter of 2016. Xinjiang Tengxiang principally engages in the production and distribution of magnesium ingots and semi-coke. Its scales of production approved by China's supervisory authorities are annual production capacities of 1,200,000 tonnes of semi-coke, 100,000 tonnes of magnesium alloy, and 100,000 tonnes of iron alloys. The annual production capacities of the current magnesium ingots and semi-coke production lines are 15,000 tonnes and 600,000 tonnes, respectively.

After the Group took charge of Xinjiang Tengxiang, it has been committed to optimize the existing production facilities and processes and undertook certain technical enhancement projects in order to improve both production efficiency and product quality. The major enhancement projects were completed in November 2016. Since the completion of these technical enhancement projects and resumption of full gear production, the average production has reached approximately 70% of the planned production capacity. In addition, the Group has also attached great importance to strengthen the product quality management which aims to align with the international standards. Xinjiang Tengxiang was accredited with ISO9001:2008 certificate for its magnesium production in January 2017. Not only does this certificate serves as a testament to the corporate product quality, but it also significantly increases customer confidence and broaden the distribution channel, which in turn maximize corporate benefits.

Coal is the major consumable energy material in magnesium production. Featured with abundant coal resources and lower exploration cost as compared to most of coal production areas in China, Xinjiang enjoys the proximity to China's coal production capacity which has shifted to western regions, leading to a prominent cost advantage. Therefore, Xinjiang Tengxiang holds an inherent advantage in production cost.

Given Xinjiang Tengxiang's production cost competitive advantage, the full gear operation and the quality improvement of its products have established a strong foundation for its magnesium alloy business, and will also fuel the rapid growth of the results of the Group's magnesium alloy business and make contribution to the overall results. The Group plans to commence the expansion of an additional 30,000-tonne magnesium alloy production line since 2017, of which 5,000-tonne production capacity expansion is expected to be completed in the second half of 2017. Upon completion of the first phase expansion, the annual magnesium alloy production capacity of Xinjiang base will reach 45,000 tonnes and bring its single factory production capacity to the forefront of the industry in China. The Group will continue to increase its efforts in the technology upgrade of production equipment, so as to continuously increase the production capacity of its magnesium products.

**Manufacturing Business Unit**

The results of the manufacturing business unit reported continuous improvement with reducing loss. This business unit will continue to strive for resources conservation, cost reduction and production efficiency enhancement.

**Strategic Products Strategic Business Unit ("Strategic Products")**

The revenue generated from Japan recorded an increase and the results were also improved. This business unit will put effort to explore new customers and aimed at creating new value and improving the performance.

**Personal Communication Products Strategic Business Unit**

The revenue from Personal Communication Products Strategic Business Unit posted growth. This business unit will continue to focus on the development of POS terminals and mobile payment related products, broaden customer base and source new income streams.

**Outlook**

Given the growing attention on new eco-friendly materials across the globe and the sustained growth of magnesium consumption, the lightweight alloy materials such as magnesium alloy are expected to achieve rapid growth in the coming years along with the support from China's 13th Five-Year Plan. To cater for the future customers' demand for magnesium alloy products, the Group will capture the opportunities by expanding production capacity and market network, attracting new source of customers, optimizing equipment and technology of the production lines and enhancing production efficiency. The Group plans to invest in phases in the coming years and eventually construct a production plant that is capable for all of the government-approved 100,000-tonne production capacities of magnesium alloy, as the Group is striving to boost its magnesium alloy business and become one of the top manufacturers in the global magnesium market.

In respect of existing businesses, the Group's business units will continue to enhance their operational efficiency, so as to maintain improvement of their business performance.

## FINANCIAL REVIEW

Revenue of the Group for the year ended 31 December 2016 was approximately HK$363,676,000 (For the nine months ended 31 December 2015: HK$139,537,000). During the year under review, magnesium business, PCP and SP business units recorded revenue of HK$132,021,000, HK$58,692,000 and HK$172,963,000, respectively.

During the year, the Group has completed the negotiation of adjustments to the purchase consideration with the sellers of Xinjiang Tengxiang. Pursuant to the sale and purchase agreement entered by the Group and the sellers, the purchase consideration shall be adjusted by the operating gain or loss of Xinjiang Tengxiang for the period from 1 May 2015 to the completion date. Accordingly the purchase consideration for the acquisition was finalised as RMB54,482,000 (equivalent to approximately HK$66,027,000) and the difference with the provisional consideration as at 31 December 2015 was recognized as additional gain on bargain purchase. The consideration payable of the Group was also reduced by RMB17,794,000. However, in accordance to HKFRSs, as the acquisition of Xinjiang Tengxiang was completed in December 2015, the increase in the gain on bargain purchase was restated to the comparative figures (for the period from 1 April 2015 to 31 December 2015) instead of the current year in this result announcement. The result for the period from 1 April 2015 to 31 December 2015 was restated to reflect the increase in the gain on bargain purchase amounting to RMB17,794,000 (equivalent to approximately HK$21,564,000). The aggregate gain on bargain purchase arising from the acquisition is approximately HK$28,746,000.

Excluding the effect of the gain on bargain purchase, operating loss of the Group during the year under review was approximately HK$4,113,000 (For the nine months ended 31 December 2015: loss of approximately HK$27,367,000). After deducting finance costs of approximately HK$1,362,000 (For the nine months ended 31 December 2015: approximately HK$934,000) and other operating expenses of approximately HK$25,526,000 (For the nine months ended 31 December 2015: approximately HK$180,000), loss before tax was approximately HK$31,001,000 (For the nine months ended 31 December 2015: approximately HK$28,481,000). After taking into account of taxation of approximately HK$22,000 (For the nine months ended 31 December 2015: Nil), loss for the year was approximately HK$31,023,000 (2015: approximately HK$28,481,000).

The increase in other operating expenses from HK$180,000 to HK$25,526,000 is mainly due to the recognition of certain operating expenses of HK$25,066,000 arising from the idle capacity of Xinjiang Tengxiang. Since the completion of acquisition of Xinjiang Tengxiang in December 2015, the Group has scheduled and focused at executing the work plan to review and streamline the existing production facilities and workflow. During the year under review, the Group has spent approximately HK$61,525,000 to upgrade the production lines, enhance the production efficiency and improve the quality of the products. Such upgrades have been completed in around November 2016 and Xinjiang Tengxiang resumed normal production afterwards. To avoid the distortion of the presentation of operating performances, the indirect costs for idle capacity have been reclassified to other operating expenses.

Regarding the statement of financial position, inventories increased by HK$25,236,000 to approximately HK$83,826,000 and trade receivables increased by HK$23,246,000 to approximately HK$43,546,000.

## LIQUIDITY AND FINANCIAL RESOURCES

On 31 December 2016, the cash and cash equivalent and pledged deposits of the Group were approximately HK$137,757,000 (31 December 2015: HK$375,649,000). The Group's bank borrowings as at 31 December 2016 were HK$21,285,000 (31 December 2015: HK$68,927,000). The Group's bank borrowings were denominated in Hong Kong dollars with floating interest rate and short term in nature.

As at 31 December 2016, the gearing ratio of the Group, defined as total bank borrowings divided by shareholders' equities, was approximately 5.0%. The interest expenses was approximately HK$1,362,000 during the year.

## CONTINGENT LIABILITIES

As at 31 December 2016, the Group has no contingent liabilities (31 December 2015: nil).

## FOREIGN CURRENCIES AND TREASURY POLICY

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong dollars, Japanese Yen, United States dollars or Renminbi. The usual treasury policy of the Group is to manage significant currency exposure and minimize currency risk whenever it may have material impact to the Group. During the last twelve months period, the Group did not engage in any interest rate or currencies speculations.

## EMPLOYEES RELATIONS

As at 31 December 2016, the Group has 69 employees (31 December 2015: 73 employees) in Hong Kong, 5 employees (31 December 2015: 5 employees) in Japan and 1,120 employees (31 December 2015: 907 employees) in China, representing an overall increase of approximately 21.2%. The Group also provides other fringe benefits such as annual leave, medical insurance and provident fund, etc. for its staff.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2016.

## AUDIT COMMITTEE

The Audit Committee currently comprises three Independent Non-executive Directors, namely Mr. Kwong Ping Man (chairman of the Audit Committee), Mr. Cheung Sound Poon and Mr. Kwan Ngai Kit. During the year under review, the Audit Committee has held two meetings to review the accounting principles and practices adopted by the Group and discuss internal control and financial reporting matters. The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2016. The Audit Committee has made positive contribution to enhancing the Company's corporate governance.

## SCOPE OF WORK OF THE COMPANY'S AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Company's auditor to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by the Company's auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standard on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by the Company's auditor on the preliminary announcement.

## CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2016, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules, save for the deviations as follows:

Under code provision A.6.7, independent non-executive directors and other non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders.

— Professor Meng Jian (being a non-executive Director) and Dr. Tam Wai Ho JP (being a non-executive Director) were unable to attend the annual general meeting held on 17 May 2016 as they were obliged to be away for other matters.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct of the Group regarding securities transactions of the directors of the Company (the "Directors") on terms no less exactly than required standard set out in the Model Code. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2016.

By order of the Board
**Group Sense (International) Limited**
**Mr. Shum Sai Chit**
*Chairman*

Hong Kong, 29 March 2017

*As at the date of this announcement, the Board comprises the following members:*

| | | |
|---|---|---|
| *Executive Directors* | : | *Mr. Shum Sai Chit and Ms. Chi Bi Fen* |
| *Non-executive Directors* | : | *Professor Meng Jian and Dr. Tam Wai Ho, Samson* JP |
| *Independent Non-executive Directors* | : | *Mr. Kwong Ping Man, Mr. Cheung Sound Poon and Mr. Kwan Ngai Kit* |

*Website: http://www.gsl.com.hk*